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THE MAY DEPARTMENT STORES COMPANY ANNUAL REPORT 1990

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The May Department Stores Company is one of the nation's largest department store retailers, operating the following quality department store companies across the country: Lord & Taylor, New York; Foley's, Houston; May Company, California, Los Angeles; Hecht's, Washington, D.C.; Kaufmann's, Pittsburgh; Robinson's, Los Angeles; Famous-Barr, St. Louis; Filene's, Boston; Thalhimers, Richmond, Va.; May Company, Ohio, Cleveland; G. Fox, Hartford; L.S. Ayres, Indianapolis; May D&F, Denver; and Meier & Frank, Portland, Ore.

Our 14 department store companies serve market areas totaling 122 million people nationwide and each company holds a leading position in its region. At fiscal 1990 year-end, we operated 324 department stores in 31 states and the District of Columbia.

Additionally, May operates Payless ShoeSource, the country's largest chain of self-service family shoe stores. Payless ShoeSource had 2,967 stores in 46 states and the District of Columbia at fiscal year-end. Formerly known as Volume Shoe Corporation, the company adopted its trade name as its corporate name in 1990.

May employs approximately 116,000 associates in 47 states, the District of Columbia and 14 offices overseas. Our operating companies are listed on page 32 of this report.

THE MAY DEPARTMENT STORES COMPANY FINANCIAL HIGHLIGHTS

(millions, except per share)	Fiscal 1990	Fiscal 1989	Increase (Decrease)
Net retail sales	\$10,035	\$9,336	8 %
Net earnings	\$ 500	\$ 515	(3)%
Earnings per share	\$ 3.74	\$ 3.64	3 %
Annual dividend rate per share at year-end	\$ 1.58	\$ 1.42	11 %
Return on net assets	17.2%	18.0%	
Return on equity	21.8%	18.0%	

Fiscal 1989 included 53 weeks. Sales for 1989, however, are shown on a comparable 52-week basis.
Results are from continuing operations.

We are pleased to report The May Department Stores Company's 16th consecutive year of record sales and earnings per share — an accomplishment made more meaningful in a year of generally difficult economic conditions for retailing, particularly in the important fourth quarter. Sales for fiscal 1990 totaled \$10.04 billion, a 7.5% increase over \$9.34 billion in the prior year. Earnings per share from continuing operations were \$3.74, up 3% from \$3.64. Net earnings from continuing operations were \$500 million compared to \$515 million last year. Our five-year compound growth rate for earnings per share is 15% — one of the best performances in the retail industry.

In the 1990 fourth quarter, sales were \$3.28 billion, up 7.8%. Earnings per share from continuing operations were \$1.91 compared to \$2.00 last year, and net earnings from continuing operations were \$252 million for the quarter compared to \$283 million in the same 1989 quarter.

Earnings for 1990 included a \$39 million charge from the use of the LIFO method of inventory valuation compared to a \$22 million credit last year. In the fourth quarter, there was a \$17 million LIFO charge versus a \$34 million credit in the prior year fourth quarter.

The dividend on common shares was increased to an annual rate of \$1.62 per share, which is effective with the June 1991 dividend payment. This makes our 16th consecutive year of dividend increases.

With the spin-off of Venture to our common shareowners completed in November, our focus is concentrated on the department store and Payless ShoeSource businesses. We enhanced our business with the acquisition of Thalhimers, a premier department store company based in Richmond, Va., which had annual sales in 1990 of \$455 million. Thalhimers operates 26 stores, principally in Virginia and the Carolinas — two new regions for May. The acquisition was effective in November 1990 and the integration was accomplished smoothly. We welcome Thalhimers to May.

The retail environment continues to change. Competition is keen. We recognize that we must accelerate our activities in response to the changing environment and we must continue to elevate our standards and expectations.

Our priorities are clearly defined. We are more precisely and consistently planning and executing our merchandising strategies, building on our superior buying skills. We continue to develop and refine innovative programs that enhance our responsiveness to emerging merchandising ideas — for example, through our com-

pany-wide teleconferences via our satellite broadcast network. Likewise, we are expanding the best and most exciting ideas from our individual store companies, leveraging innovations and successes company-wide.

Another priority is developing a store organization that is more sales driven. Supporting this, we are planning more at the individual store level, improving and expanding automatic replenishment programs and providing better sales training for our associates. We also are emphasizing customer service by improving the very successful Friendliness Program. The response from both our customers and our associates continues to be very enthusiastic. We are delighted to acknowledge our associates' ongoing commitment and contributions to genuine customer service, and proudly salute them on pages 8 and 9 of this report.

A third priority for May is to aggressively reduce expenses wherever appropriate and undertake only those capital projects, such as store openings or remodels, that have superior returns.

Our recruiting, training and development, and performance appraisal processes received continued emphasis during the year. The depth of our management team benefits the company and we maintain our commitment to having the best talent in retailing.

These priorities are further discussed in the Company Review section which immediately follows this letter.

Our five-year capital expenditure plan for 1991 through 1995 totals \$3.6 billion, including an allocation of \$2.4 billion to open 90 new department stores and 1,200 net new Payless ShoeSource stores. For 1991, we will add 15 department stores and 260 net Payless ShoeSource stores, as part of our \$600 million capital investment plan. Eleven department stores will receive major remodels in 1991, six of which will also be expanded.

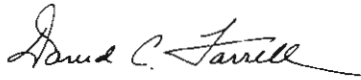
We continue to focus our charitable activities to improve the communities where we operate. The May Department Stores Company Foundation contributed more than \$10 million nationwide during 1990 to support health, education and cultural institutions, as well as various civic projects. New in 1990 were our grants of \$100,000 each to the National Community AIDS Partnership and the Design Industries Foundation to assist community efforts supporting those with the AIDS virus. In addition, we continued support to many of our long-standing projects, including national corporate sponsorship of OASIS, the Older Adult Service and Information System. Also in partnership with OASIS,

we expanded the intergenerational tutoring program for at-risk grade school children to five school districts in three major cities. During 1991, the Foundation will sponsor a major exhibition at The Metropolitan Museum of Art, presenting the private collection of Impressionism and Post-Impressionism art held by former Ambassador and Mrs. Walter H. Annenberg.

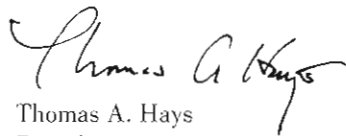
These activities illustrate our ongoing commitment to diverse audiences within our communities. We maintain, as well, our commitment to equal opportunity and affirmative action for our associates and our suppliers.

1991 has begun as another difficult year. Our plans have been carefully developed to reflect these conditions and we are ready to take full advantage of any favorable changes in consumer purchasing. May has important strengths that consistently serve us well. Our department store companies and Payless ShoeSource are powerful franchises, ranking at the forefront of their markets. Our management group, both at the operating company and corporate level, is experienced and accomplished. Our financial condition is solid. We are a well-positioned company.

We express our gratitude to each of our associates for their collective efforts throughout the year to further May's success. Our sincere appreciation is extended, as well, to the members of our Board of Directors for their enthusiastic counsel, and to our many valued suppliers and shareowners of this company for their continued support and confidence.



David C. Farrell
Chairman and Chief Executive Officer



Thomas A. Hays
President

April 1, 1991



Members of the Senior Management Committee are (seated left to right) Lawrence E. Honig and Richard L. Battram and (standing left to right) Jerome T. Loeb, David C. Farrell, Thomas A. Hays and Kenneth Kolker.



G.FOX

maycompany

THALHIMERS

ROBINSON'S

W. Taylor





MEIER & FRANK

FILENE'S



One benefit resulting from a year such as 1990 — with difficult economic conditions — and the prospect of those conditions continuing well into 1991 is that priorities become more focused. We are concentrating our activities in four areas.

Merchandising More Precisely and Consistently.

May's superior buying processes and merchandising skills provide a strong foundation. We are building on this by identifying more precisely the merchandise most in demand by our customers and we are becoming more consistent in merchandise planning and execution across the company.

We have increased our attention to the breadth and depth of our assortments. This means having the most in-demand styles more rapidly and consistently in each of our stores. It means expanding our merchandise selections in key growth businesses such as petites and women's sizes. It means more styles, broader color selection and extended size ranges in important businesses such as shoes, dresses and men's clothing.

Contributing to deeper in-stock positions is our automatic merchandise replenishment system. This program is being used more aggressively for increasing amounts of our inventory.

We have better organized and better coordinated our buying activities. We are using a number of steering committees to help in the selection process of many of our important suppliers. In this way we are able to leverage the expertise of our individual stores and our New York office. We are working more collaboratively than ever and pushing harder our best practices throughout the company.

Our merchandise information systems also are becoming more focused and precise, monitoring more activity by style. We now have timely and comprehensive data on profitability at the vendor level. Our systems are providing more information on a by-item basis, and our understanding of sales and inventory performance for each vendor at each individual store is more complete. In turn, we are able to plan, execute and track our business to a greater extent by vendor and by individual store.

Becoming More Sales Driven. With the implementation of new reporting tools referenced previously, our central merchants are less dependent on the individual stores for information. We are capitalizing on this by encouraging our store organization to increase its focus on sales.

Our commitment to sales and service, through the Friendliness Program, continues to get stronger. Our emphasis on friendliness and having the right amenities, such as boxes at point-of-sale, receives a high degree of approval from both our customers and our associates. Twenty percent of our sales associates currently hold diamond stars — the highest award in a continuing evaluation process which reflects exemplary personal achievements in customer service. During 1990, each of our department store companies set record customer service scores as determined by our ongoing customer survey program.



MAY D&F

HECHT'S

FOLEY'S

may company

LS AYRES





KAUFMANN'S

FAMOUS BARR



To further focus on sales, we are emphasizing hiring friendly people who want to sell. Job titles have been changed to reinforce selling rather than administration — for example, department managers are now area sales managers. Our compensation incentives at the store level have been changed to reward sales performance to a greater extent.

Higher Standards on Expense Control, Capital and Productivity. Historically, May has been good at expense control and it is a tribute to our entire organization that selling, general and administrative expense, as a percent of revenues, decreased significantly during a difficult year such as 1990. Still, these efforts must be accelerated. We are finding that, under the right circumstances, our associates' responsibilities can be expanded to improve both productivity and customer service. For example, we have implemented systems that enable customers to make monthly charge payments and other transactions directly on the sales floor rather than visiting an administrative counter. We also are encouraging more nontraditional ideas, implementing them and finding that many work. An example is use of state-of-the-art production equipment in seven of our department store divisions for all newspaper and direct mail advertising production. This new equipment not only has increased the quality of our advertising reproduction but has made the production process more streamlined and cost effective.

We are pleased that sales productivity, as measured by sales per square foot, also increased during a difficult year. We are continuing to build productive new stores, expand and remodel our best stores to further enhance their performance, and to close stores which pull down productivity. We are expanding our design and construction capabilities to complete capital projects at lower cost.

Providing Better Training. Having the best talent in retailing is our most important priority. All of our human resource activities — recruiting, compensation, training, performance appraisal, development — support that commitment.

Training is a major focus for the organization. Use of buyers' steering committees was introduced in 1990, giving our newer buyers exposure to and the opportunity to work closely with their more experienced counterparts. Our first store managers' conference was held in 1990. This conference closely parallels our very successful conferences for divisional merchandise managers and buyers.

New in 1991 is a significantly enhanced executive development and training program responsive to the needs of our "top schools/best in class" college recruits. This follows last year's change in the career path for these new executives with time spent in the buying and merchandising offices providing early hands-on experience. This new approach has been extremely well received. Our effectiveness at recruiting top talent on the college campus has never been better.

Our organization responded with distinction to the challenges of 1990. With our priorities clearly identified, May is well positioned to be responsive to our customers and to achieve continued growth and success.

FURTHER PROGRESS IN CUSTOMER SERVICE



WELCOME

FRIENDLINESS

SATISFACTION

STARS





CEO CUP THANK YOU



Progress in customer service continued in 1990. We salute our enthusiastic associates. Their commitment to providing genuine customer service is applauded and appreciated. Also recognized here are our CEO Cup award winners. The award, new in 1990, recognizes stores excelling in customer service and the 12 winning stores are listed below.

Featured are individual associates who displayed great initiative in providing genuine service to our customers; associates from May Company, California's Downey store, one of our best performing new stores in 1990 and winner of a CEO Cup; associates from Famous-Barr's St. Clair Square store, the largest-volume store winning a CEO Cup award; and 14 Diamond Star recipients, one from each department store company, who represent pacesetter customer service leadership at their respective stores (shown with May's Senior Management).

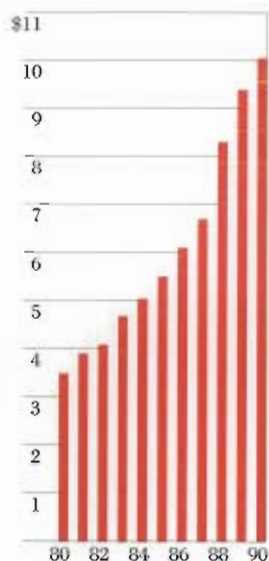
1990 CEO Cup Stores
Aventura, Lord & Taylor
Corpus Christi and Tyler, Foley's
Downey, May Company, California
Bel Air, Hecht's
Shenango and Steubenville, Kaufmann's
Horton Plaza, Robinson's
St. Clair Square and Joplin, Famous-Barr
Canton Centre, May Company, Ohio
Greenwood, L.S. Ayres

★ Top row left, left to right
David R. Brown, Robinson's
Janis W. Abrams, Lord & Taylor
Jackie M. Overton and
Richard L. Bindbeutel, Famous-Barr
Catherine R. Poteat (seated)
and Oscar M. Caballero, Foley's
Belinda A. LaChance and
Sandra M. Paparazzo, G. Fox

★ Downey, May Company, California
Top row center, left to right
Victor H. Cerda
Stephanie I. Yoder
Chad E. Briggs (seated)
Sally A. Neal
Rose M. Barone

★ St. Clair Square, Famous-Barr
Top row right, left to right
Sally A. Kent
Irene G. Merchant
Arline E. Pierce
Lou E. Cunningham
Mary Jane Martens

★ Diamond Star associates with Senior Management
Bottom row, left to right
Elizabeth Cramer, Meier & Frank
Lawrence E. Honig, Vice Chairman
Mary L. Baker, L. S. Ayres (seated, left)
Mary Ann Rieber, May D&F
David C. Farrell, Chairman
Jeanie K. Lennox, May Company, Ohio (seated, right)
Patricia M. Cox, Robinson's
Margaret A. Sutherland, Lord & Taylor
Thomas A. Hays, President
Therese K. Paxinos, Foley's
Arlene C. Nelson, G. Fox (seated)
Winifred F. McNamee, May Company, California
Grayling L. Wallace, Filene's
Jason Braun, Thalhimers
Patricia A. Perry, Hecht's
Richard L. Battram, Vice Chairman
Brenda C. Schornberg, Famous-Barr
Jerome T. Loeb, Vice Chairman
Diane Perkins, Kaufmann's



Net Retail Sales from Continuing Operations (Billions)

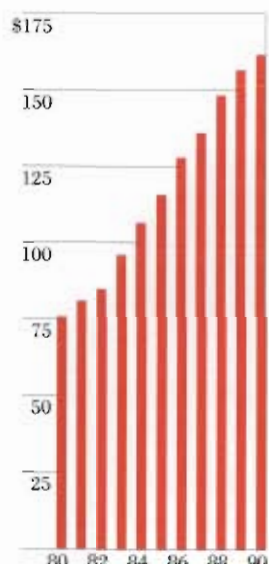
Sales and earnings per share from continuing operations reached record levels for the 16th consecutive year. This was achieved with very difficult economic conditions during the last half of the year. May was able to react quickly to the changing conditions, keeping inventories and variable expenses in line with sales volume and assuring proper positioning for 1991. Over the most recent five years, our compound growth rate for earnings per share from continuing operations is 15%, one of the best performances in the retail industry.

Sales in 1990 were \$10.0 billion, an increase of 7.5% over 1989 calendar-adjusted 52-week sales of \$9.3 billion. Total sales increases over last year reflect the benefit of new store openings and the acquisition of the Thalhimers department store company. Store-for-store sales increased 0.9% in 1990. Store-for-store sales increases (decrease) by quarter in 1990 were 4.5%, 3.4%, 0.0% and (2.3)% for the first through fourth quarters, respectively, reflecting the increasingly difficult environment.

Earnings per share from continuing operations reached \$3.74, a 3% increase over last year's \$3.64. Net earnings from continuing operations totaled \$500 million compared to \$515 million last year. Year-over-year comparisons of net earnings and earnings per share are impacted by LIFO. LIFO was a \$39 million charge in 1990 while 1989 contained a \$22 million credit, resulting in a \$61 million change between years. Return on revenues totaled 5.0% in 1990 compared to 5.4% in 1989.

May continues to strengthen its position by focusing on higher growth areas of the business and through internal growth and acquisitions. Focus has been sharpened by the divestiture of the discount store business through the spin-off of Venture to May common shareowners in 1990 and the sale of Caldor in 1989; the formation of a 50/50 partnership, May Centers Associates (MCA), in 1988 for the operation of the former shopping center subsidiary, May Centers, Inc.; the sale of Loehmann's in 1988; and the sale of two department store companies in Florida during 1987 and 1988.

During 1990, May opened 21 department stores adding 2.7 million square feet of retail space. This represents the largest number of openings in the company's history and includes four sites acquired from another retailer. Stores opened were Lord & Taylor in Westfield, Eatontown, Trenton and Freehold, N.J., in Washington, D.C., and in Denver; Foley's in Fort Worth; May Company, California, in Los Angeles and Santa Maria; Hecht's in Waldorf, Md., and four Virginia locations — Chesapeake, Virginia Beach and two stores in Richmond; Kaufmann's in Rochester and Syracuse, N.Y.; Filene's in Cambridge, Mass.; May Company, Ohio, in Cleveland; G. Fox in Manchester, Conn.; L.S. Ayres in Indianapolis; and May D&F in Denver.



Sales Per Square Foot

Four of the new stores replaced former locations closed in 1989, including three former Hahne's stores which were substantially renovated and converted to Lord & Taylor stores — in Westfield, Eatontown and Trenton, N.J. — and a new Kaufmann's store which opened at Irondequoit Mall in Rochester, N.Y. May remodeled 30 department stores during 1990, totaling 2.0 million retail square feet, and expanded 10 of these stores. At year-end, May operated 324 department stores in 31 states and the District of Columbia.

Department store closings during 1990 totaled 11 stores and 1.2 million retail square feet. Two of these stores were replaced by more productive stores in nearby locations — for May Company, Ohio, the new store at Midway Mall in Cleveland replaced the Centre of Sheffield store, and for May D&F, a new Cherry Creek store in Denver replaced a former Cherry Creek location.

Payless ShoeSource's vigorous growth continued in 1990 with 221 net new stores totaling 728,000 square feet of retail space. The Northeast was emphasized with 93 new stores. At year-end, Payless ShoeSource operated 2,967 stores in 46 states and the District of Columbia.

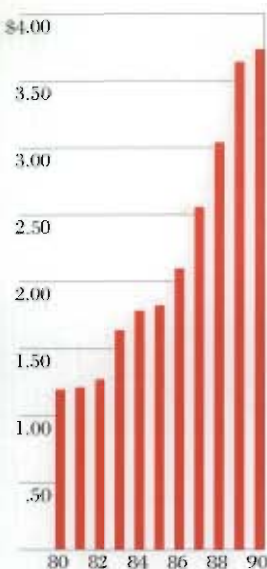
Expansion remains a priority. In 1991, May will open 15 stores totaling 2.1 million square feet of retail space. During March, Lord & Taylor opened a store in Danbury, Conn. Additional Spring openings are May Company, California, in Santa Ana; Hecht's in Salisbury, Md.; and Robinson's in Los Angeles. Fall openings are Lord & Taylor in St. Louis and Buffalo, N.Y.; Foley's in Dallas and Tucson, Ariz.; Hecht's in Baltimore; Famous-Barr in St. Louis and Carbondale, Ill.; Filene's in Salem, N.H.; Thalhimers in Raleigh, N.C.; and G. Fox in Milford, Conn., and Middletown, N.Y. In 1991, May plans to remodel 11 department stores, involving 1.3 million square feet of retail space, and to expand six of these stores.

The 1991-1995 expansion plan will add 90 new department stores and 13.6 million retail square feet. For this five-year period, May will invest \$1.4 billion to add these new stores and an additional \$350 million to remodel existing stores.

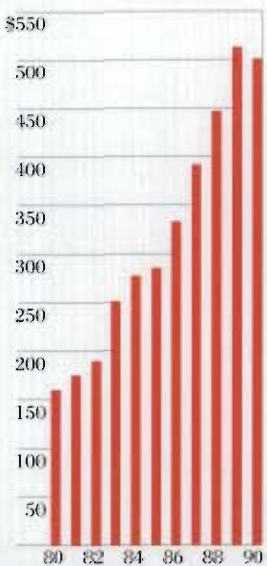
In 1991, Payless ShoeSource will continue to expand aggressively across the nation, adding 260 net new stores and 840,000 square feet of retail space. Significant growth is again scheduled for the Northeast with 113 net new stores.

The 1991-1995 expansion plan for Payless ShoeSource calls for a capital investment, including the present value of operating leases, of \$950 million to add 1,200 net new stores with 3.9 million square feet of retail space. Additionally, the company will invest \$125 million to remodel existing stores.

Acquisitions during the past five years have included the Thalhimers department store company in 1990, the Foley's and Filene's department store companies in 1988 and May's merger with Associated Dry Goods Corporation



Earnings Per Share from Continuing Operations



Net Earnings from Continuing Operations (Millions)

in 1986. The acquisition of Thalhimers, a premier department store company headquartered in Richmond, Va., added 26 stores in Virginia, North Carolina, South Carolina and Tennessee. These acquisitions have expanded and strengthened market share and geographical presence. Also during the past five years, May combined six of its smaller department store companies with other of its department store companies, resulting in more powerful regional companies with an increased ability to compete and serve its customers.

Review of Operations

May's retail activities operate in two business segments — department stores and self-service family shoe stores operated by Payless ShoeSource. Specific information by business segment is presented in the Six Year Summary by Business Segment on pages 26 and 27. Fiscal 1989 included 53 weeks; however, the additional week did not materially affect 1989 earnings. All net retail sales information in this Review of Operations is presented on a comparable calendar-adjusted 52-week basis to provide a more meaningful year-over-year comparison. On a total company basis, results from continuing operations were as follows:

	1990		1989		1988	
(dollars in millions, except per share)	\$	% of Revenues	\$	% of Revenues	\$	% of Revenues
Net Retail Sales	\$10,035		\$9,336		\$8,330	
Revenues	\$10,066	100.0%	\$9,602	100.0%	\$8,874	100.0%
Cost of sales	6,978	69.3	6,581	68.6	6,098	68.7
Selling, general and administrative expenses	2,046	20.3	1,989	20.7	1,888	21.3
Interest expense, net	280	2.8	233	2.4	198	2.2
Earnings before income taxes	762	7.6	799	8.3	690	7.8
Provision for income taxes	262	34.3*	284	35.6*	242	35.1*
Net earnings	\$ 500	5.0%	\$ 515	5.4%	\$ 448	5.1%
Fully Diluted Earnings Per Share	\$ 3.74		\$ 3.64		\$ 3.04	

* Percent represents effective income tax rate.

Net Retail Sales. Net retail sales (see page 15 for definition) increases by business segment for 1990 and 1989 were as follows:

	1990 vs. 1989		1989 vs. 1988		Five-Year Compound Growth Rate
	Total	Store-for-Store	Total	Store-for-Store	
Department stores	7.0%	0.4%	12.9%	6.4%	12.4%
Payless ShoeSource	11.1	3.6	8.4	1.4	14.4
Total	7.5%	0.9%	12.3%	5.8%	12.7%

Total sales increases for 1990 include the results of Thalhimers from its effective acquisition date of November 4, 1990, along with 21 new department stores and 221 net new Payless ShoeSource stores. Sales increases for 1989 reflect the opening of 11 new department stores and 144 net new Payless ShoeSource stores.

Sales per square foot by segment were as follows:

	1990	1989	1985	1990 vs. 1989 Increase	Five-Year Compound Growth Rate
Department stores	\$165	\$159	\$116	3.4%	7.2%
Payless ShoeSource	147	141	115	4.4	5.0
Total	\$162	\$157	\$116	3.5%	6.9%

Sales include finance charge revenue and leased and licensed department sales as follows:

(millions)	1990	1989	1988
Finance charge revenue	\$332	\$289	\$244
Leased and licensed department sales	374	372	344

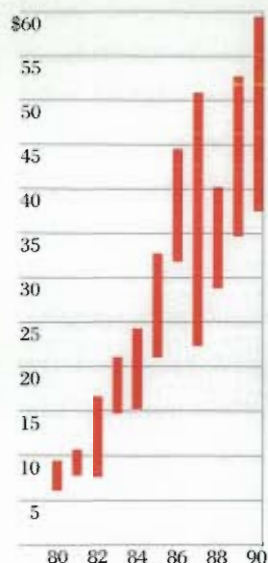
Cost of Sales. Cost of sales includes cost of merchandise sold and occupancy and buying costs. Cost of sales was \$6.98 billion in 1990 compared to \$6.58 billion in 1989, a 6.0% increase. The overall increase is principally related to higher sales volume. As a percent of revenues, cost of sales was 69.3% in 1990 compared to 68.6% in 1989 and 68.7% in 1988. The increased 1990 percent over 1989 and 1988 resulted primarily from a higher LIFO provision — a \$39 million charge in 1990 compared to a \$22 million credit in 1989 and a \$3 million credit in 1988. The impact of LIFO on cost of sales, as a percent of revenues, is shown below:

	1990	1989	1988
Cost of sales	69.3%	68.6%	68.7%
LIFO charge (credit)	0.4	(0.2)	-
Cost of sales before LIFO	68.9%	68.8%	68.7%

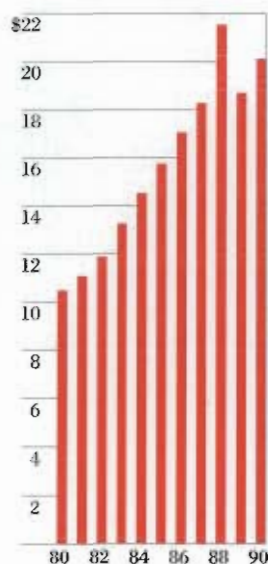
Improvements derived from the benefits of store closings and combinations of divisions over the past several years were offset by the impact of a slightly lower gross margin percent in 1990 resulting from higher markdowns. There were no significant changes in the other components of cost of sales.

Selling, General and Administrative Expenses.

Selling, general and administrative expenses were \$2.05 billion in 1990 compared to \$1.99 billion in 1989, a 2.9% increase. The overall increase is principally related to higher sales volume. As a percent of revenues, selling, general and administrative expenses were 20.3% in 1990, 20.7% in 1989 and 21.3% in 1988. The decrease in 1990 expense rate compared to 1989 is mainly due to effective expense control measures throughout 1990 and benefits derived from the combination of Sibley's into Kaufmann's, offset in part by a higher provision for allowances for uncollectible customer accounts receivable. The decrease in the 1989 expense rate compared to 1988



Common Stock Price Range



Net Book Value Per Common Share

is primarily due to expense savings at acquired divisions and economies achieved primarily through the conversion of six Hahne's stores to Lord & Taylor stores, and the combination of the Goldwaters division in Scottsdale primarily with Robinson's in Los Angeles and the O'Neil's division in Akron with the May Company division in Cleveland. Included in selling, general and administrative expenses are advertising and sales promotion costs of \$367, \$359 and \$326 million in 1990, 1989 and 1988, respectively.

Interest Expense. The components of interest expense are provided below:

(dollars in millions)	1990	1989	1988
Interest expense	\$314	\$265	\$223
Interest income	(20)	(22)	(18)
Capitalized interest	(14)	(10)	(7)
Interest expense, net	\$280	\$233	\$198
Percent of revenues	2.8%	2.4%	2.2%

The net interest expense in 1990 has increased over 1989 mainly due to higher borrowings associated with the repurchase of common stock from MCA on February 1, 1990, for \$663 million and the acquisition of Thalhimers effective November 4, 1990, for \$317 million. The increase in interest expense in 1989 compared to 1988 is primarily due to the full-year interest expense impact of the 1988 acquisition of the Foley's and Filene's department store companies.

Income Taxes. The effective income tax rate was 34.3% in 1990 compared to 35.6% in 1989 and 35.1% in 1988. The decrease in the effective rate in 1990 compared to 1989 resulted from higher tax credits and the impact of greater MCA partnership equity earnings, which are reflected as a reduction of selling, general and administrative expense on an aftertax basis. The effective tax rates as compared to the statutory rate for the past three years include a reduction related to the deferred gross profit rate differential of 2.1%, 2.0%, and 2.2% in 1990, 1989 and 1988, respectively. The deferred taxes related to deferred gross profit were repaid over a four-year period which ended in 1990, as required by the 1986 Tax Reform Act. See Taxes on page 22.

Fully Diluted Earnings Per Share. Fully diluted earnings per share from continuing operations reached \$3.74 in 1990 compared to \$3.64 in 1989, a 2.7% increase. Fully diluted earnings per share from continuing operations have increased at a rate greater than net earnings from continuing operations due to common share repurchases during the past years.

Net Earnings. Net earnings from continuing operations totaled \$500 million in 1990 compared to \$515 million in 1989 and \$448 million in 1988. On a total company basis, return on revenues was 5.0% in 1990 compared to 5.4% in 1989 and 5.1% in 1988.

Overall, the company's sales growth and earnings have not been materially impacted by inflation. The department store inflation rate, as measured by the government's Department Store Price Index, was 3.5% during 1990 compared to 0.7% in 1989. Selling prices over time have generally kept pace with cost increases and, as a result of valuing the majority of inventory on a LIFO basis, the current cost of merchandise is reflected in current operating results.

Summary Segment Information. May operates 14 department store companies across the United States, each operating under long-standing and widely recognized names. Each store company holds a leading position in its region. Results for the department store segment were:

(dollars in millions)	1990	1989	1988	Increase (Decrease)	
				1990	1989
Net retail sales	\$8,669	\$8,106	\$7,198	7.0%	12.9%
Operating earnings	915	945	792	(3.2)	19.3
Return on sales	10.6%	11.5%	10.6%		
Return on net assets	20.0	22.3	19.6		

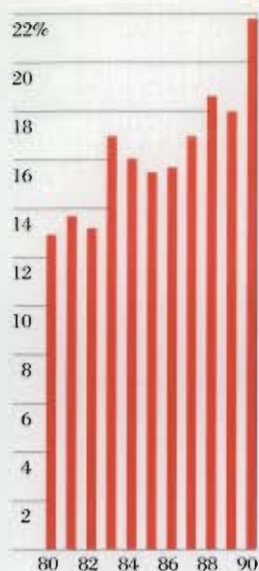
The above results include the Thalhimers department store company from its effective acquisition date of November 4, 1990. Department store operating earnings represent LIFO earnings before income taxes, net interest expense and corporate expense, and exclude goodwill amortization and closed and sold divisions. Department store operating earnings presented above include a LIFO charge of \$39 million in 1990 and LIFO credits of \$22 million and \$3 million in 1989 and 1988, respectively. Department store operating earnings, excluding LIFO, are presented below on a supplementary basis for comparative purposes:

(dollars in millions)	1990	1989	1988	Increase	
				1990	1989
Operating earnings	\$954	\$923	\$789	3.3%	17.0%
Return on sales	11.0%	11.2%	10.6%		

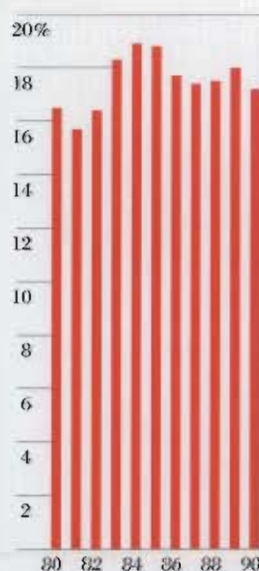
Payless ShoeSource, the nation's largest chain of self-service family shoe stores, sold 114 million pairs of shoes in 1990. At year-end, Payless ShoeSource operated 2,967 stores in 46 states and the District of Columbia. Results for Payless ShoeSource were:

(dollars in millions)	1990	1989	1988	Increase	
				1990	1989
Net retail sales	\$1,366	\$1,230	\$1,132	11.1%	8.4%
Operating earnings	161	144	138	11.6	4.2
Return on sales	11.7%	11.7%	12.2%		
Return on net assets	28.9	28.9	29.3		

Provided on the next page is a summary of net retail sales, sales per square foot, building area square footage and number of stores for the department store segment and Payless ShoeSource.



Return on Equity



Return on Net Assets

	Net Retail Sales in Millions of Dollars		Sales Per Square Foot		Building Area Square Footage in Thousands		Number of Stores			
	1990	1989	1990	1989	1990	1989	1990	New	Closed	1989
Lord & Taylor, New York	\$ 1,147	\$1,020	\$179	\$170	6,163	6,244	46	6	7	47
Foley's, Houston	1,150	1,123	148	146	7,803	7,735	36	1	-	35
May Company, California	987	943	151	150	6,605	6,470	37	2	-	35
Hecht's, Washington, D.C.	940	824	229	220	4,425	3,785	27	5	-	22
Kaufmann's, Pittsburgh	768	735	174	156	4,571	4,249	25	2	-	23
Robinson's, Los Angeles	734	739	157	157	4,651	4,787	28	-	1	29
Famous-Barr, St. Louis	507	506	133	131	3,804	3,839	17	-	-	17
Filene's, Boston	488	483	208	211	2,397	2,309	19	1	-	18
Thalhimer's, Richmond, Va.	156	-	153	-	2,975	-	26	-	-	-
May Company, Ohio	441	435	143	136	3,084	3,108	16	1	1	16
G. Fox, Hartford	436	425	206	219	2,219	2,016	12	1	-	11
L.S. Ayres, Indianapolis	345	327	141	139	2,526	2,376	15	1	-	14
May D&F, Denver	286	272	153	150	1,913	2,009	12	1	2	13
Meier & Frank, Portland, Ore.	284	274	149	141	1,885	1,932	8	-	-	8
Total department stores	8,669	8,106	165	159	55,021	50,859	324	21	11	288
Payless ShoeSource	1,366	1,230	147	141	9,647	8,919	2,967	221(net)	-	2,746
Total retail operations	\$10,035	\$9,336	\$162	\$157	64,668	59,778	3,291	242	11	3,034

Net retail sales, presented on a calendar-adjusted 52-week basis in 1989 for comparability, represent sales of stores open at the end of 1990 and include Thalhimer's from its effective acquisition date of November 4, 1990. Full-year sales for Thalhimer's were \$455 and \$439 million in 1990 and 1989, respectively. Sales per square foot is calculated on revenues of all stores and average square footage, and is presented on a 52-week basis in 1989 for comparability. Building area represents square footage of stores open at the end of the period presented.

Review of Financial Condition

Return on equity is our principal measure in evaluating our performance for shareowners and our ability to profitably invest shareowners' funds. Because of significant changes to shareowners' equity during recent years resulting from our employee stock ownership plan (ESOP) and repurchases of May common stock from the MCA partnership, this measure must be viewed over the long term. Return on net assets is a more consistent measure of performance and effectiveness of capital investments.

Return on Net Assets. Return on net assets represents pretax earnings from continuing operations before interest expense and the interest component of operating leases divided by net assets (including present value of operating leases) of continuing operations at the beginning of the year. Return on net assets was 17.2% in 1990 compared to 18.0% in 1989 and 17.5% in 1988.

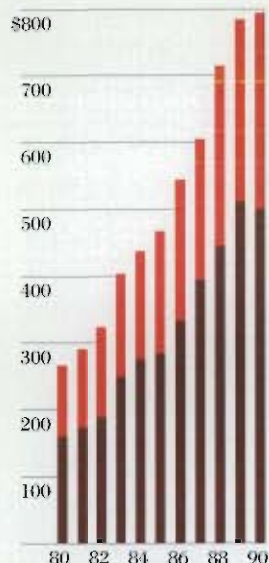
Return on Equity. Net earnings generated through operations (continuing and discontinued) and common shareowners' equity at the beginning of the year are the components used to measure our performance. Our objective is to sustain performance that places our return on equity in the top quartile of the retail industry. Our return on equity in 1990 was 21.8% compared to 18.0% in 1989 and 18.6% in 1988. Return on equity in 1990 was benefited by reduced shareowners' equity resulting from the formation of our ESOP and common stock repurchases in 1989.

Capital Structure. Our capital structure reflects our objectives to generate superior shareowner returns, consistent with maintaining access to capital at all times at reasonable costs.

During the 1990 fourth quarter, the company issued \$500 million of debt securities with maturities ranging from two to 30 years. Proceeds from these issuances were used to retire a portion of outstanding commercial paper borrowings. During the 1990 fourth quarter, the company completed the acquisition of the Thalhimer's department store company for \$317 million. Also during 1990, the company announced plans to repurchase up to \$250 million of its common stock through purchases in the open market from time-to-time as market conditions allow.

On February 1, 1990, 14.5 million shares of May common stock were purchased from MCA for \$663 million. The purchase was funded with a \$367 million sale/leaseback of 37 department stores to a corporation owned by MCA and short-term borrowings. During 1990, May and affiliates of MCA completed additional sale/leaseback transactions of 23 department store properties amounting to \$210 million. Proceeds were used to retire a portion of outstanding commercial paper borrowings. As a result of May being a 50% partner in MCA, the sale/leaseback transactions are accounted for as loans from MCA (MCA loans). See May Centers Associates on page 22 and Long-term Debt on page 23.

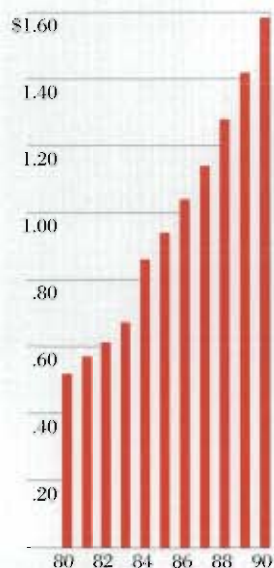
Our balance sheet and financial condition measures continue to be very strong. The debt-to-capitalization ratio was 55%, 54%, and 49% at the end of 1990, 1989 and 1988, respectively. The increase in the 1989 debt-to-capitalization ratio over 1988 primarily resulted from the MCA sale/leaseback transaction and the repurchase of common stock from MCA.



Cash Flow (Millions)

■ Depreciation and Amortization

■ Net Earnings from Continuing Operations



Dividends Per Common Share (Year-End Rate)

For purposes of the debt-to-capitalization ratio, total debt is defined as short-term and long-term debt (including the ESOP debt reduced by unearned compensation, and excluding one-half of the MCA loans and one-half of the capital lease obligation payable to May Centers, Inc., as May is a 50% partner in MCA), redeemable preferred stock and the capitalized value of all leases, including operating leases. The company's objective is to use short-term debt only to finance seasonal requirements. Capitalization is defined as total debt, noncurrent deferred taxes, ESOP Preference Shares and shareowners' equity. See Pension and Profit Sharing on page 20 for discussion of the ESOP.

Fixed charge coverage was 2.5x, 2.7x and 2.8x in 1990, 1989 and 1988, respectively. Fixed charges are defined as gross interest expense (excluding one-half of the interest expense related to the MCA loans), interest expense on the ESOP debt, total rent expense and the pretax equivalent of dividends on redeemable preferred stock.

Our bonds are rated A2 by Moody's Investors Service, Inc., and A by Standard & Poor's Corporation. Our commercial paper is rated P1 and A1 by Moody's and Standard & Poor's, respectively. Our debt-to-capitalization ratio and fixed charge coverage continue to be strong and consistent with our capital structure objectives and provide the company with substantial financial flexibility.

Cash Flow. Cash flow (net earnings and depreciation/amortization) from continuing operations was 7.9% of revenues in 1990 compared to 8.2% in 1989 and 8.1% in 1988. The company's cash flow as a percent of revenues continues to be one of the highest in the retail industry. Internally generated funds are an important component of our capital resources. Sources and (uses) of cash flows are summarized below:

(millions)	1990	1989	1988
Continuing operations:			
Earnings and depreciation/amortization	\$ 794	\$ 784	\$ 714
Working capital increases	(426)	(379)	(125)
Other operating activities	(3)	(11)	(145)
Investing activities	(778)	(424)	(1,400)
Financing activities	149	(338)	720
Discontinued operations	252	335	193
Decrease in cash	\$ (12)	\$ (33)	\$ (43)

Capital Expenditures. Capital investments are planned and evaluated based upon several financial measures. Return on net assets and sales per square foot are emphasized as the principal operating measures as we invest in new stores and remodels and eliminate unproductive space.

Capital expenditures in 1991 will approximate \$600 million (including \$130 million representing the capital value of new operating leases) and are planned to exceed \$3.6 billion (including \$650 million representing the

capital value of new operating leases) for the 1991-1995 period. Internal cash flow will be used to finance the majority of these expenditures.

Available Credit. The company has \$1.2 billion of available borrowing under its multi-year credit agreements. In addition, as of February 2, 1991, the company had a shelf registration statement filed with the Securities and Exchange Commission which would enable it to issue up to \$725 million in additional debt securities.

Common Stock Dividends and Market Prices.

Our policy is to increase dividends on common stock consistent with our earnings growth over time. The 1991 annual dividend rate was increased \$.04 to \$1.62 per share, the 16th consecutive annual dividend increase. The new annual dividend of \$1.62 per share will be effective with the June 1991 dividend payment. Dividends paid have increased at a compound rate of 11% during the past five years. The company has paid consecutive quarterly dividends since December 1, 1911.

The quarterly price ranges of the common stock and dividends per share in 1990 and 1989 were:

Quarter	1990			1989		
	Market Prices High	Market Prices Low	Dividends Per Share	Market Prices High	Market Prices Low	Dividends Per Share
First	\$52 ¹ / ₈	\$43 ³ / ₈	\$.35 ¹ / ₂	\$39 ¹ / ₂	\$34 ¹ / ₈	\$.32
Second	59 ¹ / ₈	45 ¹ / ₄	.39 ¹ / ₂	47 ¹ / ₂	38 ⁷ / ₈	.35 ¹ / ₂
Third	47 ¹ / ₂	37 ³ / ₈	.39 ¹ / ₂	52 ³ / ₈	43 ¹ / ₄	.35 ¹ / ₂
Fourth	46 ¹ / ₂	37 ³ / ₈	.39 ¹ / ₂	49 ¹ / ₄	43 ¹ / ₄	.35 ¹ / ₂
Year	\$59 ¹ / ₈	\$37 ³ / ₈	\$1.54	\$52 ³ / ₈	\$34 ¹ / ₈	\$1.38 ¹ / ₂

The approximate number of common shareowners as of March 1, 1991, was 45,000.

On October 9, 1990, the May common stock traded ex-Venture and, on November 3, 1990, the company distributed the common shares of Venture pro rata to May common shareowners of record on October 15, 1990. The May common stock price on October 8, 1990, was adjusted by the New York Stock Exchange from \$40.00 per share to \$38.75 per share, reflecting the impact of the distribution of the Venture common stock to May common shareowners.

Fiscal Year. The company's fiscal year ends on the Saturday closest to January 31. Fiscal years 1990, 1989 and 1988 ended on February 2, 1991, February 3, 1990, and January 28, 1989, respectively. Fiscal years 1990 and 1988 included 52 weeks and fiscal year 1989 included 53 weeks. References to years relate to fiscal years rather than calendar years.

Basis of Reporting. The consolidated financial statements include the accounts of the company and all wholly owned subsidiaries (the company). The consolidated financial statements reflect Caldor, Venture and Loehmann's as discontinued operations. See Discontinued Operations on page 20. The company's 50% partnership investment in May Centers Associates (MCA) is included in other assets in the consolidated balance sheet and is accounted for using the equity method of accounting. See May Centers Associates on page 22.

Net Retail Sales and Revenues. Net retail sales (sales) represent the sales of stores operating at the end of the latest period. They include the sales of Thalhimers, Foley's and Filene's from their respective acquisition dates and exclude the sales of divisions which have been sold or discontinued, as well as stores which have been closed and not replaced. Sales include sales of merchandise and services, finance charge revenue from customer accounts receivable and sales of leased and licensed departments. Sales are net of returns and exclude sales tax. Store-for-store sales represent sales of those stores open during both years. For comparability with 1990, 1989 net retail sales presented on a 52-week basis are for the period ended February 3, 1990.

Revenues include all sales of all stores operating during the period and are used in the calculation of sales per square foot using average square footage.

Cost of Sales. Cost of sales includes the cost of merchandise sold and occupancy and buying costs.

Property and Equipment. Property and equipment are recorded at cost and include historical amounts for the 60 department stores sold to and leased back from MCA. See May Centers Associates on page 22. Property and equipment are depreciated on a straight-line basis over their estimated useful lives. Investments in properties under capital leases and leasehold improvements are amortized over the shorter of their useful lives or their related lease terms.

Preopening Expenses. Costs associated with the opening of new stores are expensed during the year incurred.

Income Taxes. The company provides income taxes currently for all items included in the consolidated statement of earnings regardless of when such taxes are payable. Deferred and prepaid taxes arise from the recognition of revenue and expense in different periods for tax and financial statement purposes. The Statement of Financial Accounting Standards (SFAS) No. 96, "Accounting for Income Taxes," which was issued in December 1987, requires the adjustment of previously

deferred taxes for changes in tax rates (the liability method). The adjustment may be reported in income in the year of adoption or prior period financial statements may be restated to reflect the adjustment. After adoption of SFAS No. 96, future changes in the statutory tax rate will increase/decrease earnings and shareowners' equity and decrease/increase deferred taxes to the extent they are less than/greater than the statutory rates they replace. During 1989, the Financial Accounting Standards Board (FASB) delayed the effective date of SFAS No. 96 until fiscal years beginning after December 15, 1991. The company currently intends to adopt SFAS No. 96 when required in 1992. The FASB continues to review SFAS No. 96 and is considering possible amendments. However, if the company had adopted SFAS No. 96 in its current form in 1990, without retroactive restatement, deferred and prepaid taxes would have decreased and net earnings and shareowners' equity would have increased by approximately \$40 million.

Earnings Per Share. Primary earnings per share are computed by dividing net earnings less dividend requirements on ESOP Preference Shares and redeemable preferred stock by the average common shares outstanding and common share equivalents during the period. Fully diluted earnings per share assume conversion of the ESOP Preference Shares into common stock and adjust net earnings for the additional expense required to fund the ESOP debt service resulting from the assumed replacement of the ESOP Preference Shares dividends with common stock dividends. The average common shares outstanding and common share equivalents used to calculate fully diluted earnings per share were 132.4, 140.0 and 147.7 million in 1990, 1989 and 1988, respectively. See Share Repurchases on page 24. References to earnings per share relate to fully diluted earnings per share.

Accounts Receivable. Consistent with industry practice, installments on deferred payment accounts receivable maturing in more than one year are included in current assets.

Merchandise Inventories. Merchandise inventories are valued at the lower of cost or market as determined primarily by the retail method, and are stated on the LIFO (last-in, first-out) cost basis for department stores (85% and 86% of the company's consolidated inventories in 1990 and 1989, respectively) and on the FIFO (first-in, first-out) cost basis for Payless ShoeSource. The accumulated LIFO provision was \$174 and \$135 million in 1990 and 1989, respectively.

Goodwill. Goodwill represents the excess of cost over the fair value of net tangible assets acquired, at the dates of acquisition. Substantially all amounts are amortized using the straight-line method over a 40-year period. Goodwill is presented in the consolidated balance sheet net of accumulated amortization of \$42 and \$27 million in 1990 and 1989, respectively.

CONSOLIDATED STATEMENT OF EARNINGS
The May Department Stores Company and Subsidiaries

(millions, except per share)	1990	1989	1988
Net Retail Sales	\$10,035	\$9,456	\$8,330
Revenues	\$10,066	\$9,602	\$8,874
Cost of sales	6,978	6,581	6,098
Selling, general and administrative expenses	2,046	1,989	1,888
Interest expense, net	280	233	198
Total cost of sales and expenses	9,304	8,803	8,184
Earnings from continuing operations before income taxes	762	799	690
Provision for income taxes	262	284	242
Net earnings from continuing operations	500	515	448
Net earnings from discontinued operations	-	6	57
Net gain (loss) on disposal of discontinued operations	-	(23)	29
Net earnings	\$ 500	\$ 498	\$ 534
Primary Earnings Per Share:			
Continuing operations	\$ 3.88	\$ 3.75	\$ 3.05
Discontinued operations	-	.05	.38
Gain (Loss) on disposal of discontinued operations	-	(.17)	.20
Primary Earnings Per Share	\$ 3.88	\$ 3.63	\$ 3.63
Fully Diluted Earnings Per Share:			
Continuing operations	\$ 3.74	\$ 3.64	\$ 3.04
Discontinued operations	-	.05	.38
Gain (Loss) on disposal of discontinued operations	-	(.17)	.20
Fully Diluted Earnings Per Share	\$ 3.74	\$ 3.52	\$ 3.62

See the Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEET
The May Department Stores Company and Subsidiaries

	February 2, 1991	February 3, 1990
(dollars in millions, except per share)		
Assets		
Current Assets:		
Cash	\$ 80	\$ 92
Accounts receivable, net	2,494	2,274
Merchandise inventories	1,628	1,491
Other current assets	175	125
Net current assets of discontinued operations	-	71
Total current assets	4,377	4,053
Property and Equipment:		
Land	236	231
Buildings and improvements	2,192	1,963
Furniture, fixtures and equipment	1,646	1,437
Property under capital leases	106	105
Total property and equipment	4,180	3,736
Accumulated depreciation	(1,195)	(1,070)
Property and equipment, net	2,985	2,666
Goodwill	637	567
Other Assets	296	277
Net Noncurrent Assets of Discontinued Operations	-	239
Total Assets	\$ 8,295	\$ 7,802
Liabilities and Shareowners' Equity		
Current Liabilities:		
Notes payable and current maturities of long-term debt	\$ 333	\$ 449
Accounts payable	729	706
Accrued expenses	628	694
Income taxes payable	52	145
Total current liabilities	1,742	1,994
Long-term Debt	3,565	3,003
Deferred Income Taxes	352	329
Other Liabilities	160	153
ESOP Preference Shares	397	400
Unearned Compensation	(388)	(396)
Shareowners' Equity:		
Common stock	123	124
Retained earnings	2,344	2,195
Total shareowners' equity	2,467	2,319
Total Liabilities and Shareowners' Equity	\$ 8,295	\$ 7,802

Common stock has a par value of \$1.00 per share; 350 million shares are authorized and 156.8 million shares were issued. At February 2, 1991, 122.9 million shares were outstanding and 33.9 million shares were held in treasury. At February 3, 1990, 124.3 million shares were outstanding and 32.5 million shares were held in treasury.

ESOP Preference Shares have a par value of \$.50 per share, stated value of \$.07 per share and 800,000 shares are authorized. At February 2, 1991, 783,136 shares (convertible into 8,023,354 common shares) were issued and outstanding. At February 3, 1990, 788,953 shares (convertible into 7,889,550 common shares) were issued and outstanding.

See Preferred and Preference Stock in Notes to Consolidated Financial Statements for discussion of other preferred stock.

See the Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF SHAREOWNERS' EQUITY

The May Department Stores Company and Subsidiaries

	Outstanding Common Stock Shares	Dollars	Additional Paid-In Capital	Retained Earnings	Total
(dollars in millions, shares in thousands)					
Balance at January 30, 1988	149,153	\$149	\$ 41	\$2,533	\$2,723
Net earnings	-	-	-	534	534
Dividends paid:					
Common stock (\$1.24 1/2 per share)	-	-	-	(184)	(184)
Preferred stock	-	-	-	-	-
Common stock issued	17,160	17	611	-	628
Purchase of common stock	(17,203)	(17)	(634)	-	(651)
Balance at January 28, 1989	149,110	149	18	2,883	3,050
Net earnings	-	-	-	498	498
Dividends paid:					
Common stock (\$1.38 1/2 per share)	-	-	-	(186)	(186)
ESOP Preference Shares, net of tax benefit	-	-	-	(15)	(15)
Preferred stock	-	-	-	-	-
Common stock issued	2,153	2	68	-	70
Purchase of common stock	(26,914)	(27)	(86)	(935)	(1,098)
Balance at February 3, 1990	124,349	124	-	2,195	2,319
Net earnings	-	-	-	500	500
Dividends paid:					
Common stock (\$1.54 per share)	-	-	-	(191)	(191)
ESOP Preference Shares, net of tax benefit	-	-	-	(18)	(18)
Preferred stock	-	-	-	-	-
Common stock issued	1,482	2	60	-	62
Purchase of common stock	(2,935)	(3)	(60)	(84)	(147)
Distribution of equity in Venture	-	-	-	(58)	(58)
Balance at February 2, 1991	122,896	\$123	\$ -	\$2,344	\$2,467

Outstanding common stock excludes shares held in treasury. Treasury share activity for the last three years is summarized below:

	1990	1989	1988
Balance, beginning of year	32,469	7,708	7,665
Common stock issued:			
Exercise of stock options	(978)	(1,255)	(868)
Deferred compensation plan	(286)	(354)	(1,382)
Restricted stock plan	(78)	(142)	(39)
Contribution to Profit Sharing Plan	(77)	(402)	(351)
Conversion of ESOP Preference Shares	(63)	-	-
Sold to May Centers Associates	-	-	(14,520)
	(1,482)	(2,153)	(17,160)
Purchase of common stock	2,935	26,914	17,203
Balance, end of year	33,922	32,469	7,708

See the Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
The May Department Stores Company and Subsidiaries

(millions)	1990	1989	1988
Operating Activities:			
Net earnings	\$ 500	\$ 498	\$ 534
Net loss (earnings) from discontinued operations and disposal	-	17	(86)
Net earnings from continuing operations	500	515	148
Adjustments for noncash items included in earnings:			
Depreciation and amortization	294	269	266
Deferred income taxes (noncurrent)	9	42	31
Deferred and unearned compensation	28	21	19
Adjusted equity earnings of MCA	(31)	(20)	(6)
Working capital increases, net of acquisitions*	(426)	(379)	(125)
Other assets and liabilities, net	(9)	(54)	(189)
Discontinued operations	(31)	(106)	105
Total operating activities	334	288	549
Investing Activities:			
Capital expenditures	(548)	(522)	(337)
Disposition of property and equipment	69	129	134
Acquisition of companies	(317)	-	(1,117)
Investment in and advances to partnerships and affiliates	6	(17)	(88)
Property and equipment activity of discontinued operations	154	(70)	(75)
Proceeds on disposition of discontinued operations	-	525	166
Other	12	(14)	8
Total investing activities	(624)	31	(1,309)
Financing Activities:			
Increase (Decrease) in notes payable	(144)	322	36
Issuance of long-term debt	710	374	1,074
Repayment of long-term debt	(120)	(205)	(183)
Issuance of ESOP Preference Shares	-	400	-
Purchase of common stock	(147)	(1,098)	(651)
Issuance of common stock	59	70	628
Dividend payments	(209)	(201)	(184)
Debt activity of discontinued operations	129	(14)	(3)
Total financing activities	278	(352)	717
Decrease in Cash	(12)	(33)	(43)
Cash, Beginning of Year	92	125	168
Cash, End of Year	\$ 80	\$ 92	\$ 125
*Comprised of:			
Accounts receivable, net	\$ (98)	\$ (136)	\$ (205)
Merchandise inventories	(30)	(173)	(76)
Other current assets	(47)	(39)	(31)
Accounts payable	(33)	(67)	120
Accrued expenses	(126)	(17)	100
Income taxes payable	(92)	53	(33)
Net increase in working capital	\$(426)	\$ (379)	\$ (125)
Cash paid during the year:			
Interest	\$ 316	\$ 297	\$ 230
Income taxes	394	282	324

Noncash investing and financing activities include the distribution of \$58 million equity in the spin-off of Venture and \$3 million conversions of ESOP Preference Shares into common stock in 1990; \$400 million of ESOP debt issued by the company's Profit Sharing Plan and guaranteed by the company and the related unearned compensation in 1989; and a \$400 million note issued in connection with the acquisition of Foley's and Filene's and \$74 million of capital lease obligations in 1988. Noncash financing activities for discontinued operations include the retirement of \$52 million debt and capital lease obligations in 1989.

See the Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements.

Acquisitions, Combinations, Closings and Real Estate Transactions. Effective November 4, 1990, the company acquired the Thalhimers department store company for \$317 million. The acquisition was accounted for as a purchase and, accordingly, the results of Thalhimers have been included in the company's consolidated results since its effective acquisition date. The acquisition did not have a material effect on the results of operations or financial position of the company.

During 1989, the company announced the combination of its Kaufmann's division based in Pittsburgh and its Sibley's division based in Rochester, N.Y., into a single division operating under the Kaufmann's name. The company recorded a \$10 million pretax charge in 1989 for the costs associated with the combination. Also during 1989, the company recorded a \$7 million pretax gain from the sale of a former store location.

Effective May 1, 1988, the company acquired the Foley's and Filene's department store companies for \$1.5 billion. The acquisition was accounted for as a purchase and, accordingly, the results of Foley's and Filene's have been included in the company's consolidated results since their acquisition date. Also during 1988, the company began to convert six Hahne's stores to Lord & Taylor stores, combine the Goldwaters division in Scottsdale primarily with the Robinson's division in Los Angeles, and combine the O'Neil's division in Akron with the May Company division in Cleveland, and closed low-productivity store locations and relocated a data processing center. The company recorded a pretax charge of \$104 million in 1988 for the cost of these activities. During 1988, the company completed the sale of its May Florida division and certain excess real estate resulting in pretax gains of \$100 million.

Discontinued Operations. The company sold the stock of Caldor, effective October 28, 1989, for \$500 million in cash, plus the assumption of \$52 million in debt and capital lease obligations. Also during the 1989 third quarter, the company announced plans to distribute shares of Venture to May common shareowners (spin-off). During 1990, Venture incurred debt and distributed the net proceeds of \$262.5 million to the company. The spin-off was completed on November 3, 1990, with the distribution of .13 shares of Venture common stock for each share of May common stock to the May common shareowners of record at the close of business on October 15, 1990. The spin-off resulted in the distribution of approximately 16 million shares of Venture common stock. After the spin-off, the company owned no shares of Venture common stock.

During the third quarter of 1989, the company recorded a pretax charge for loss on disposal of discontinued operations of \$56 million, \$23 million after tax (\$.17 per

share), for the estimated loss on disposal of Caldor and Venture. The estimated loss represented the loss on the sale of Caldor, plus estimated transaction costs and expenses for the sale of Caldor and anticipated spin-off of Venture, offset by Caldor and Venture operating earnings for the third quarter and Venture's estimated operating earnings through the anticipated spin-off date.

During the 1988 third quarter, the company completed the sale of its Loehmann's specialty store division. The sale resulted in a pretax gain on disposal of discontinued operations of \$47 million, \$29 million after tax (\$.20 per share).

The company's financial statements presented herein reflect Caldor, Venture and Loehmann's as discontinued operations. The consolidated statement of earnings includes the results of Caldor and Venture as discontinued operations only through the second quarter of 1989, pursuant to the company's decision to pursue their disposal. The results of these discontinued operations, including Caldor through its sale date and Venture through its spin-off date, are shown below. These results include an allocation of the company's consolidated interest expense of \$3, \$21 and \$23 million in 1990, 1989 and 1988, respectively.

(millions, except per share)	1990	1989	1988
Revenues	\$941	\$2,441	\$3,046
Pretax earnings	13	64	94
Net earnings	8	39	57
Earnings per share	.06	.28	.38

Pension and Profit Sharing. Effective January 1, 1989, the company combined its several qualified pension plans into one plan and amended the plan to cover substantially all associates who work 1,000 hours or more per year and have attained the age of 21. The retirement plan is noncontributory and provides benefits based upon years of service and pay during employment. The company maintains a nonqualified supplementary retirement plan for certain associates and a foreign retirement plan for certain overseas associates.

Effective January 1, 1991, the Thalhimers pension plan was merged with the May plan and, as part of purchase accounting, a liability was recorded as of the effective acquisition date for the excess of Thalhimers' projected benefit obligation over its pension plan assets.

Pension expense for all plans is determined by the company based on information provided by an outside actuarial firm, using assumptions to estimate the total benefits ultimately payable to associates and then allocating this cost to service periods. Each of the actuarial assumptions used to calculate pension costs is reviewed annually. The following tables summarize the funded status of the plans, components of pension expense, actuarial assumptions and definition of key terms.

(millions)	1990	1989
Actuarial Present Value of Benefit Obligations:		
Vested benefit obligation	\$196	\$157
Nonvested benefit obligation	16	13
Accumulated benefit obligation (ABO)	212	170
Estimated effect of future salary increases	57	59
Projected benefit obligation (PBO)	269	229
Plan assets at fair value (primarily equity and fixed income securities)	250	232
Plan assets (less than) in excess of PBO	(19)	3
Unrecognized obligation	7	7
Unrecognized gain	(34)	(39)
Unrecognized prior service cost	25	20
Accrued pension cost	\$ (21)	\$ (9)
Plan assets in excess of ABO	\$ 38	\$ 62

As of February 2, 1991, the company's accrued pension cost was adequate to cover, on an individual plan basis, the excess of ABO over plan assets. During 1990, the company updated the pension plan's career average pay formula to provide increased benefits to certain long-service associates. The last formula update was in 1985. Formula updates result in a decrease of the excess of plan assets over ABO.

(millions)	1990	1989	1988
Components of Pension Expense:			
Service cost	\$ 21	\$ 26	\$ 18
Interest on PBO	20	18	27
Actual return on assets	(21)	(42)	(32)
Net amortization and deferral	1	24	(4)
Settlement of pension obligations	(1)	-	(8)
Total	\$ 20	\$ 26	\$ 1

The decrease in 1990 pension expense from 1989 primarily relates to a favorable investment performance in 1989 and favorable demographic experience, offset in part by additional expense related to the pension benefit formula update. The increase in 1989 pension expense over 1988, after excluding the 1988 gain on settlement of certain pension obligations with retired participants, primarily relates to the increased service costs related to additional associates who became eligible for the plan pursuant to the plan amendment and combination.

	January 1,		
	1991	1990	1989
Actuarial Assumptions:			
Discount rate	8.5%	8.3%	8.3%
Expected return on plan assets	8.5	8.5	8.5
Salary increase	6.0	6.0	6.0

Definition of Key Terms:

ABO is the actuarial present value of benefits (both vested and nonvested) attributed by the pension benefit formula to prior associate service based on current and past compensation levels.

PBO is the actuarial present value of benefits attributed by the pension benefit formula to prior associate service taking into consideration future salary increases.

Accrued pension cost is expense not yet paid to a plan.

Net amortization and deferral represents the net effect during the period of delayed recognition provisions of SFAS No. 87.

Effective January 1, 1989, the company combined and amended all qualified profit sharing plans into one plan to cover substantially all associates who work 1,000 hours or more per year and have attained the age of 21. The plan is a contributory defined contribution plan which provides for discretionary matching allocations at a variable matching rate generally based upon changes in the company's earnings per share, as defined in the plan.

In March 1989, the company further amended its Profit Sharing Plan to include an ESOP. Subsequent to the amendment, the Profit Sharing Plan borrowed \$400 million, guaranteed by the company, at an average rate of 8.5% with an average maturity of 12 years. The proceeds were used to purchase \$400 million of a new class of convertible preference stock of the company (ESOP Preference Shares). The company issued 788,955 shares of ESOP Preference Shares. The shares initially were each convertible into 10 shares of common stock and had a stated value of \$50.70 per common share equivalent. Upon the distribution of Venture shares to the company's common shareowners as of November 3, 1990, the conversion rate was adjusted to 10.2452 shares of common stock for each of the ESOP Preference Shares and the stated value was adjusted to \$49.49 per common share equivalent. The annual dividend rate on the ESOP Preference Shares is 7.5%, and the shares are redeemable by the holder or the company in certain situations.

The guaranteed ESOP debt of \$400 million is reflected in the consolidated balance sheet in long-term debt as the company ultimately will fund the required debt service. An equal amount was initially reflected as unearned compensation. The company's contributions to the ESOP, along with the dividends on the ESOP Preference Shares, will be used to repay the loan principal and interest. Interest expense associated with the ESOP debt was \$34 million in 1990 and \$26 million in 1989. ESOP Preference Shares dividends applicable to 1990 and 1989 were \$30 million and \$23 million, respectively. There were no ESOP debt principal repayments in 1990 or 1989. ESOP Preference Shares are allocated annually to participating associates based upon debt service payments and the annual matching allocations. Unearned compensation is amortized as principal is repaid, and is adjusted for the difference between the expense related to the ESOP and cash payments to the ESOP.

The company's expense related to the Profit Sharing Plan was \$7 million in 1990, \$15 million in 1989 and \$20 million in 1988. The decrease in profit sharing expense in 1990 from 1989 is a result of the full-year impact of the ESOP, along with a lower matching allocation. The decrease in profit sharing expense in 1989 from 1988 is a result of the implementation of the ESOP in 1989. Another important element in the retirement programs for associates is the federal Social Security system into which the company paid \$122 million in 1990 as its matching portion of the \$122 million contributed by associates.

During 1990, the Financial Accounting Standards Board issued rules on accounting for post retirement benefits, effective for fiscal years beginning after December 15, 1992. The adoption of the rules will not have a material effect on the financial statements of the company.

Taxes. The reconciliation between the statutory federal income tax rate and the effective income tax rate for the last three years follows:

	1990	1989	1988
Statutory federal income tax rate	34.0%	34.0%	34.0%
State and local income taxes, net of federal tax benefit	4.5	4.5	4.5
Deferred gross profit rate differential	(2.1)	(2.0)	(2.2)
Equity earnings of MCA partnership	(1.4)	(0.6)	-
Other, net	(0.7)	(0.3)	(1.2)
Effective income tax rate	34.3%	35.6%	35.1%

The provision for income taxes and related percent of pretax earnings for the last three years were as follows:

	1990		1989		1988	
(millions)	\$	%	\$	%	\$	%
Federal	\$231		\$236		\$236	
State and local	55		54		51	
Taxes currently payable	286	37.5%	290	36.3%	287	41.6%
Federal	(21)		(6)		(41)	
State and local	(3)		-		(4)	
Deferred taxes	(24)	(3.2)	(6)	(0.7)	(45)	(6.5)
Total	\$262	34.3%	\$284	35.6%	\$242	35.1%

The provision for deferred income taxes consisted of:

(millions)	1990	1989	1988
Excess of tax over book depreciation	\$ 11	\$ 37	\$ 19
Acquisitions and combinations reserves	18	10	(25)
Deferred gross profit on installment method sales	(50)	(50)	(52)
Deferred compensation	(5)	(4)	14
Other, net	2	1	(1)
Total	\$(24)	\$ (6)	\$(45)

The Tax Reform Act of 1986 eliminated the deferral of gross profit on the installment method sales, "froze" such deferrals at January 31, 1987, levels and required the payment of the taxes over a four-year period at the statutory rate in effect at the time of payment. The company's deferred taxes relating to deferred gross profit on installment method sales were \$3 million at February 2, 1991, and \$69 million at February 3, 1990. The decrease in 1990 deferred taxes resulted from \$50 million in taxes paid and a \$16 million reduction of the 1990 tax provision as a result of the tax rate difference.

Prepaid income taxes are classified as other current assets. These amounts were \$128 and \$70 million in 1990 and 1989, respectively, and consisted primarily of prepaid taxes related to acquisitions and combinations reserves, insurance and state income taxes, and are net of

the current portion of deferred taxes relating to deferred gross profit on installment method sales. Included in deferred income taxes are deferred investment tax credits of \$15 million at February 2, 1991, and \$22 million at February 3, 1990.

Taxes other than income taxes consisted of:

(millions)	1990	1989	1988
Payroll	\$155	\$149	\$137
Real estate and personal property	65	58	57
Total	\$220	\$207	\$194

Accounts Receivable. During 1990, department store credit sales (under department store credit programs) were \$5.8 billion or 66.9% of 1990 department store sales compared with 64.9% in 1989 and 62.2% in 1988. An estimated 35 million customers hold credit cards under the company's various credit programs. In addition, \$730 million in sales, including sales of Payless Shoe-Source stores, were made through third party credit cards in 1990. Net accounts receivable consisted of:

(millions)	February 2, 1991	February 3, 1990
Customer accounts receivable	\$2,456	\$2,223
Other accounts receivable	122	117
Gross accounts receivable	2,578	2,340
Allowance for doubtful accounts	(84)	(66)
Accounts receivable, net	\$2,494	\$2,274

Bad debt expense, including actual net losses and adjustments to the reserves, was \$82, \$64 and \$57 million in 1990, 1989 and 1988, respectively.

Other Assets. Major components of other assets include:

(millions)	February 2, 1991	February 3, 1990
Investment in May Centers Associates	\$135	\$110
Note receivable from May Centers, Inc.	74	74
Other notes receivable	31	44

May Centers Associates. On August 17, 1988, the company entered into an agreement with PruSimon Associates (PruSimon), an affiliate of Melvin Simon & Associates and The Prudential Life Insurance Company, regarding the admission of PruSimon into a 50/50 partnership for the operation of May Centers, Inc. The company contributed the capital stock of May Centers, Inc., and PruSimon contributed approximately \$550 million in cash to the new partnership, May Centers Associates (MCA), which was subsequently used to purchase 14.5 million shares of May common stock. See Share Repurchases on page 24. The company's investment in the partnership and its results of operations are recorded using the equity method of accounting. Included in selling, general and administrative expenses are \$31, \$20 and \$6 million of adjusted equity earnings of

MCA in 1990, 1989 and 1988, respectively. The partnership investment is included in other assets in the consolidated balance sheet and was initially valued at the company's historical carrying value of its investment in May Centers, Inc. The company's initial underlying equity interest in the partnership's net assets approximated \$550 million. The difference between the company's historical basis in May Centers, Inc., and the underlying equity interest in the partnership at the date of formation is being amortized over a period approximating the depreciable lives of the assets of May Centers, Inc.

On February 1, 1990, the company repurchased 14.5 million shares of May common stock from MCA for \$663 million. One-half of the difference between the sale price of the company's stock to MCA and the repurchase price of the company's stock from MCA, equal to \$56 million, was recorded as an increase to the company's investment in MCA. See Share Repurchases on page 24. On February 1, 1990, a corporation owned by MCA purchased 37 of the company's department store properties for \$367 million and leased the properties back to the company for a 25-year base term, plus renewal options. The company and affiliates of MCA completed additional sale/leaseback transactions of 23 department store properties amounting to \$210 million during 1990. The sale/leasebacks are accounted for as loans from MCA. See Long-term Debt on this page.

Accrued Expenses. Major components of accrued expenses include:

(millions)	February 2, 1991	February 3, 1990
Insurance costs	\$185	\$191
Salaries, wages and employee benefits	96	122
Sales and use taxes	57	60
Interest expense	49	44
Acquisitions and combinations	34	25

Short-term Debt and Lines of Credit. Short-term borrowings for the last three years are summarized as follows:

(millions)	1990	1989	1988
Balance outstanding at year-end	\$214	\$358	\$ 36
Average interest rate on year-end balance	7.4%	8.3%	8.9%
Average balance outstanding	\$441	\$312	\$ 357
Average interest rate on average balance	8.2%	9.2%	7.7%
Maximum balance outstanding	\$720	\$732	\$1,416

The average amount of short-term borrowings outstanding, primarily commercial paper, and the respective weighted average interest rates are based on the number of days such short-term borrowings were outstanding during the year. The company has multi-year credit agreements amounting to \$1.2 billion. At February 2, 1991, there were no amounts outstanding under these agreements.

Long-term Debt. Long-term debt and capital lease obligations were:

(millions)	February 2, 1991	February 3, 1990
5.25% to 14.5% unsecured notes and sinking fund debentures due 1991-2021	\$2,939	\$2,534
MCA sale/leasebacks	570	367
5.8% to 9.875% mortgage notes and bonds due 1991-2009	71	86
Total debt	3,580	2,987
Capital lease obligations	104	107
	3,684	3,094
Less current maturities	(119)	(91)
Total	\$3,565	\$3,003

During the 1990 fourth quarter, the company issued \$425 million of debentures with interest rates ranging from 9-7/8% to 10-5/8% with due dates ranging from 2002 to 2021. Also during the 1990 fourth quarter, the company issued \$75 million of medium-term notes with interest rates ranging from 7.28% to 9.93% with maturities ranging from two years to 17 years. The company used the net proceeds from these issuances to retire a portion of its outstanding commercial paper.

In March 1989, the company's Profit Sharing Plan borrowed \$400 million at an average rate of 8.5% and an average maturity of 12 years. The amount is guaranteed by the company and is included in long-term debt. See Pension and Profit Sharing on page 20.

On February 1, 1990, the company sold 37 of its department store properties to a corporation owned by MCA for \$367 million and simultaneously leased back the properties. During 1990, the company and affiliates of MCA completed additional sale/leaseback transactions of 23 department store properties amounting to \$210 million. As the company is a 50% partner in MCA, the accounting rules specify that the sale/leasebacks be accounted for as loans from MCA. The base lease terms are 25 years and include fixed annual payments of \$53 million and percentage payments based upon defined sales levels. The leases also provide for renewal options. See May Centers Associates on page 22.

The annual maturities of long-term debt, including sinking fund requirements, are \$119, \$79, \$102, \$64 and \$283 million for 1991 through 1995, respectively.

The net book value of property and equipment encumbered under long-term debt agreements was \$86 million at February 2, 1991. Under the most restrictive covenants of long-term debt agreements, \$1.2 billion of retained earnings at February 2, 1991, was restricted as to the payment of dividends and/or common share repurchases.

The company has guaranteed Venture's repayment obligations up to \$50 million under Venture's revolving credit facility and its mortgaged debt agreement until such time as Venture achieves certain financial ratios.

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John F. Strong, Chairman

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Frank J. Williams, Jr.
Public Affairs and Senior

SHAREOWNER INFORMATION

Corporate Office

The May Department Stores Company
611 Olive Street, St. Louis, Mo. 63101
(314) 342-6300

1991 Annual Meeting

The Annual Meeting of Shareowners will be held at 10 a.m., Friday, May 31, in the ninth floor auditorium of the downtown Famous-Barr store, 601 Olive Street, St. Louis, Mo.

Annual and 10-K Reports

Copies of the company's annual report to shareowners, the Form 10-K annual report to the Securities and Exchange Commission, and the Form 10-Q quarterly reports to the SEC are available free of charge to shareowners upon request to:

Corporate Communications
The May Department Stores Company
611 Olive Street, St. Louis, Mo. 63101

Common Stock

Shares of The May Department Stores Company common stock are listed and traded on the New York Stock Exchange (trading symbol MA) and the Pacific Stock Exchange (trading symbol MA). The stock is quoted as "MayDS" in daily newspapers.

Shareowner Inquiries

For assistance concerning dividend payments and shareowner records, including change of address, please contact our transfer agent and registrar:

Boatmen's Trust Company
P.O. Box 14768, St. Louis, Mo. 63178
(314) 466-6000

Shareowner Inquiries:
(800) 456-9852
(314) 466-1357

Security analysts, investment professionals and shareowners may direct their inquiries to:

Mr. Jan R. Kniffen
Vice President and Treasurer
The May Department Stores Company
611 Olive Street, St. Louis, Mo. 63101
(314) 342-6413

